

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE
STATE OF NEW YORK)**

**Financial Statements
June 30, 2012 and 2011
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

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INDEPENDENT AUDITORS' REPORT

September 21, 2012

To the Board of Directors of
Hudson River-Black River Regulating District:

We have audited the accompanying financial statements of the business-type activities of Hudson River-Black River Regulating District (the Regulating District), a New York Public Benefit Corporation, which is a discretely presented component unit of the State of New York, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Regulating District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Regulating District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Regulating District as of June 30, 2012 and 2011, and the changes in its net assets and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012 on our consideration of the Regulating District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT

(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Regulating District's financial statements as a whole. The combining information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the financial statements. The combining information included in Schedules I and II is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012 AND 2011**

This Management's Discussion and Analysis (MD&A) of Hudson River-Black River Regulating District (the Regulating District) provides an introduction to the major activities and operations of the Regulating District and an introduction and overview to the Regulating District's financial performance and statements for the fiscal years ended June 30, 2012 and 2011.

Following this MD&A are the basic financial statements of the Regulating District together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. The Statements of Net Assets and the Statements of Revenue, Expenses and Change in Net Assets (on pages 8 and 9, respectively) provide both long-term and short-term information about the Regulating District's overall financial status. The Statements of Cash Flows (on page 10) provides information on the sources and uses of the Regulating District's cash through operating, capital and related financing and investing activities. The information contained in the MD&A should be considered in conjunction with the information contained in the Financial Statements and the Notes to Financial Statements.

REGULATING DISTRICT ACTIVITIES

The Regulating District was created in 1959 when the New York State Legislature passed legislation (Article 15 Title 21 of the Environmental Conservation Law) combining the Hudson River Regulating District, founded in 1922, and the Black River Regulating District, founded in 1919. Both were created to regulate the flow of the waters of New York State's two great neighboring watersheds.

The legislation charged the Regulating District with regulating the flow of the two rivers, including health and safety, as required by the public welfare. Specifically, the Regulating District's responsibilities include reducing floods caused by excess run-off, and augmenting river flow at times of drought or other periods when normal river flows are low. Organized as a public benefit corporation, the Regulating District was given a broad spectrum of legal powers to accomplish this mission, including the authority to build and operate reservoirs, issue bonds, and apportion costs on its beneficiaries to finance construction, maintenance, and operation of its reservoirs.

The Regulating District's operations are conducted under two regional operating units - one for the Black River area and another for the Hudson River area - each with segregated budgets. The management of both regions is vested in a seven-member Board appointed by the Governor of New York State. The mission of the Regulating District is to regulate the flows of the Hudson River and Black River for the purposes of flood protection and flow augmentation. The Regulating District Board formulates policies to accomplish its mission at Great Sacandaga Lake, providing flood protection and low flow augmentation through reservoir releases in accordance with the Upper Hudson/Sacandaga Offer of Settlement; at Indian Lake, Stillwater Reservoir, Old Forge and Sixth Lake, providing storage during periods of high flow and augmenting flows during periods of low flow; operating a data-gathering system for precipitation, stream flow, snow depth and flood conditions; providing the public with information pertinent to its mission; operating and maintaining facilities; maintaining a sound financial status for the Regulating District operations; managing the lands of the State of New York under the Regulating District's jurisdiction; and promulgating rules and regulations necessary to fulfilling its mission.

REGULATING DISTRICT ACTIVITIES (Continued)

The Regulating District currently receives its primary funding from statutory beneficiaries, comprised of hydroelectric power generators, industrial operations and municipalities that directly benefit from augmented river flow and flood protection. These beneficiaries are annually assessed their proportional share of Regulating District operating expenses. A secondary revenue source comes from hydropower agreements that provide annual revenue in exchange for the ability to utilize headwater on Regulating District-administered state land for hydroelectric generating purposes. A third source of revenue, in the Hudson River area only, is the Sacandaga Lake Access Permit System, which generates revenue equal to the cost of its operations.

The financing of the two areas is accomplished independently because operating costs of each are recovered from two different sets of statutory beneficiaries, hydropower (or water usage) agreements and, in the Hudson River area only, the Great Sacandaga Lake Permit System. Statutory beneficiaries in both watersheds are assessed proportional shares of all other budgeted operating and overhead costs, after deducting the estimated revenue from the hydropower agreements, permit system, and estimated interest income. In 2009, the Regulating District determined the cost of the Permit System using a costing methodology recommended to the Board by an outside consultant. Revenue from statutory beneficiaries, hydropower agreements, and permit holders, if collected, is sufficient to balance the Regulating District's annual budget.

FACILITIES

Hudson River Area Facilities: The Regulating District administers the lands of the State of New York that constitute the Great Sacandaga Lake (Sacandaga Reservoir) as well as its shoreline, and issues annual revocable permits to eligible property owners for access to the lake across State land. The lake, impounded behind the Conklingville Dam, is the heart of Regulating District operations in the 8,300 square mile Hudson-Sacandaga area. The Regulating District also owns and operates Indian Lake Reservoir and Dam.

Black River Area Facilities: In the Black River drainage area of 1,916 square miles, the Regulating District operates reservoirs and dams at Stillwater, Old Forge, and Sixth Lake.

Administrative Offices: The Regulating District's Hudson River Area Office occupies leased space in Albany. A Regulating District-owned building in Mayfield houses the Sacandaga Field Office for the Hudson River Area. The Regulating District's Black River Area Office occupies rented space in Watertown. A Regulating District-owned building at the Stillwater Reservoir houses the Black River Field Office.

OPERATIONS SUMMARY

The Regulating District's scope of operations and concomitant costs (in 000s) tend to be relatively stable from year to year:

	<u>Black River Area</u>			<u>Hudson River Area</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 878	\$ 918	\$ 916	\$ 6,903	\$ 5,731	\$ 6,837
Operating expenses	<u>(1,363)</u>	<u>(1,421)</u>	<u>(1,684)</u>	<u>(7,649)</u>	<u>(6,400)</u>	<u>(6,424)</u>
Operating income (loss)	(485)	(503)	(768)	(746)	(669)	413
Net non-operating revenue (expense)	<u>9</u>	<u>44</u>	<u>123</u>	<u>-</u>	<u>-</u>	<u>28</u>
Change in net assets	<u>\$ (476)</u>	<u>\$ (459)</u>	<u>\$ (645)</u>	<u>\$ (746)</u>	<u>\$ (669)</u>	<u>\$ 441</u>

OPERATIONS SUMMARY (Continued)

Operating expenses fall into four major categories: property taxes, personnel expenses, engineering and maintenance, and administrative overhead. While other expenses remain fairly stable, engineering and maintenance costs vary from year to year depending on a number of factors that affect our reservoirs, dams, and shoreline. These factors include, but are not necessarily limited to, weather, environmental protection and remediation, regulatory requirements, and recreational use of facilities. Since it is the dams that make possible the Regulating District's regulating of reservoir levels and river flows, and which restrain water to prevent flooding, maintenance of these dams is the Regulating District's primary activity.

For fiscal year 2012, consolidated Regulating District operations remained relatively static versus fiscal year 2011, due in large part to the ongoing litigation challenge by the five (5) counties against the Hudson River Area assessments for the period of July 1, 2009 through June 30, 2012.

For fiscal year 2012 versus 2011, Hudson River Area overall operations (excluding labor related expenses) were down 4%.

For fiscal year 2011 versus 2010, permit system direct labor decreased approximately \$134K due in large part to a significant reduction in staff resulting from a funding shortfall. Erosion control decreased by \$220K due to a decision to discontinue that activity pending the replacement of lost funding.

For fiscal year 2011 versus 2010 engineering consultant costs decreased approximately \$145K, again due in large part to the delay in the scheduling of Federal Energy Regulatory Commission (FERC) required inspections resulting from a funding shortfall.

Historically, the Regulating District's board restricted reserve funds have served to minimize the effect that budget fluctuations would have on the statutory beneficiaries that provide its primary funding. When available, these reserve funds retain operating surpluses in lower expense years, and provide a means of funding operating deficits in high expense years – an effective means of assessment stabilization. As of fiscal year ending 2012, all reserves of the consolidated Regulating District have been liquidated. Future replenishment of these reserves depends largely on the outcome of litigation.

Contributing somewhat to annual imbalances between revenues and expenses has been the Regulating District's legislative mandate to adopt three-year budgets. While multi-year budgets, with revenues assessed equally for three years, serve to stabilize assessments during the budget cycle, they also tend toward surplus early in the multi-year cycle and deficit in the final year. Fiscal year 2012 was the third year of the three year budgeting cycle.

STATEMENT OF NET ASSETS SUMMARY (000s)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Buildings	\$ 937	\$ 937	\$ 937
Building improvements, furniture and equipment	1,694	1,694	1,694
Vehicles	740	740	842
Dam structures	<u>14,118</u>	<u>14,118</u>	<u>14,118</u>
Cost of capital assets	17,489	17,489	17,591
Less: Accumulated depreciation	<u>(13,886)</u>	<u>(13,655)</u>	<u>(13,489)</u>
Net book value of capital assets	3,603	3,834	4,102
Current assets	<u>15,578</u>	<u>12,870</u>	<u>10,383</u>
Total assets	19,181	16,704	14,485
Less: Liabilities	<u>(14,284)</u>	<u>(10,584)</u>	<u>(7,237)</u>
Net assets	<u>\$ 4,897</u>	<u>\$ 6,120</u>	<u>\$ 7,248</u>

This analysis reflects the Regulating District's financial position. Asset growth generally occurs in governmental units when 1) cash assets are accumulated, and/or 2) debt is used to finance acquisition or construction of capital (durable) assets such as equipment, furniture, land, buildings, major improvements that extend the life of a capital asset, or leasehold improvements.

Asset shrinkage occurs when 1) accumulated cash assets are used for expenses that exceed revenues, and/or 2) assets acquired during the year cost less than "depreciation."

In fiscal years 2012 and 2011, accounts receivable and accounts payable increased significantly. The past due assessment receivables and accounts payable are directly related to the ongoing five (5) counties litigation. As of this report, the five (5) counties (Albany, Rensselaer, Saratoga, Washington, and Warren) have filed a Motion for Leave to Appeal (to the Court of Appeals) with the Appellate Division Third Department. The motion sought permission from the Appellate Division to appeal their decision to the Court of Appeals. On July 31, 2012, the Appellate Division denied that request. On August 31, 2012, the five counties filed a Motion with the Court of Appeals seeking leave to appeal the Third Department's May 10, 2012 Decision to the Court of Appeals. As a result, the Board made the decision to hold all school and property tax payments pending a solution to the past due assessment receivable.

CAPITAL ASSETS

During the past year, depreciation expense decreased the book value of assets. There have been no capital additions during fiscal year 2012 or 2011. Growth of capital assets in a governmental unit is not necessarily an indicator of positive financial conditions, nor is negative capital growth necessarily an indicator of financial deterioration.

DEBT

The Hudson River Area has no plans to borrow during the upcoming budget cycle.

FINANCIAL CONDITION

The Regulating District's financial condition continues to be plagued by the status of the Hudson River Area past due assessments levied upon the five (5) counties that receive flood protection benefits. The assessments for fiscal year 2009-10, 2010-11 and 2011-12 remain unpaid pending the outcome of the county's request for leave from the New York Court of Appeals. The Regulating District expects a decision by the court before the end of 2012. Consequently, the Hudson River Area will continue to operate at a structural deficit pending the receipt of subsequent assessments issued against five local counties and reimbursement of qualified Section 10(f) costs prescribed for by the Federal Power Act pursuant to the final report dated July 31, 2012.

In the Black River Area, operating results remain predictable and within an acceptable range of budget variance.

FUTURE ECONOMIC EVENTS

On July 31, 2012, the Regulating District received the final FERC Headwater Benefits Study report defining the equitable portion of the Regulating District's Federal Power Act section 10(f) costs to be paid by the federally licensed merchant for profit hydropower generators benefitted by the Regulating District's operation. The FERC order will complete the shift of the Regulating District's primary funding source from federally licensed for profit hydropower generators to five counties identified in the state statutorily authorized July 12, 2012 Apportionment. These two beneficiary groups, one under federal authority and the other pursuant to state authority, will be assessed annually their proportional share of Regulating District operating expenses.

REQUESTS FOR INFORMATION

The accompanying financial statements are designed to provide detailed information on the Regulating District's operations to all those with an interest in the Regulating District's financial affairs. Questions concerning any of the information provided in this report, or any request for additional information, should be addressed to the Chief Fiscal Officer, Hudson River-Black River Regulating District, 350 Northern Boulevard, Albany, New York 12204.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,075,309	\$ 1,100,070
Investments	-	2,763,762
Accounts receivable, net	13,981,617	8,470,487
Prepaid expenses	<u>520,994</u>	<u>535,658</u>
Total current assets	15,577,920	12,869,977
CAPITAL ASSETS, net	<u>3,603,387</u>	<u>3,833,826</u>
Total assets	<u>19,181,307</u>	<u>16,703,803</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	7,506,430	5,122,155
Deferred revenue	827,742	-
Current portion of compensated absences	69,144	66,721
Current portion of retirement incentive	58,679	58,679
Current portion of due to New York State Retirement System	<u>36,771</u>	<u>40,004</u>
Total current liabilities	8,498,766	5,287,559
COMPENSATED ABSENCES, net of current portion	207,431	200,163
OTHER POSTEMPLOYMENT BENEFITS	5,387,502	4,826,688
RETIREMENT INCENTIVE, net of current portion	176,037	234,716
DUE TO NEW YORK STATE RETIREMENT SYSTEM, net of current portion	<u>14,495</u>	<u>35,298</u>
Total liabilities	<u>14,284,231</u>	<u>10,584,424</u>
NET ASSETS		
INVESTED IN CAPITAL ASSETS UNRESTRICTED	<u>3,603,387</u>	<u>3,833,826</u>
	<u>1,293,689</u>	<u>2,285,553</u>
Total net assets	<u>\$ 4,897,076</u>	<u>\$ 6,119,379</u>

The accompanying notes are an integral part of these statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Assessments	\$ 6,219,505	\$ 5,072,482
Water power service	1,145,379	1,105,489
Permit fees	411,794	408,060
Other	<u>4,554</u>	<u>62,714</u>
Total operating revenue	<u>7,781,232</u>	<u>6,648,745</u>
OPERATING EXPENSES:		
Personnel services and employee benefits	2,628,191	3,279,367
Real estate taxes	2,551,017	2,535,056
Bad debt	2,060,794	-
New York State service fees	787,236	981,281
Contractual services	627,730	646,918
Depreciation	230,439	248,942
Material and supplies	127,665	129,981
Repairs and maintenance	<u>12</u>	<u>402</u>
Total operating expenses	<u>9,013,084</u>	<u>7,821,947</u>
Total operating loss	<u>(1,231,852)</u>	<u>(1,173,202)</u>
NON-OPERATING REVENUE:		
Investment income, net	<u>9,549</u>	<u>44,904</u>
Total non-operating revenue	<u>9,549</u>	<u>44,904</u>
CHANGE IN NET ASSETS	(1,222,303)	(1,128,298)
NET ASSETS - beginning of year	<u>6,119,379</u>	<u>7,247,677</u>
NET ASSETS - end of year	<u>\$ 4,897,076</u>	<u>\$ 6,119,379</u>

The accompanying notes are an integral part of these statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from (paid to) assessment beneficiaries	\$ (524,677)	\$ 1,795,752
Cash received from water power service	1,145,379	1,105,489
Cash received from permit fees	411,794	408,060
Other cash receipts	4,554	5,170
Payments to vendors and suppliers for goods and services	(1,694,721)	(2,427,038)
Payments to employees	<u>(2,140,401)</u>	<u>(1,814,023)</u>
Net cash flow from operating activities	<u>(2,798,072)</u>	<u>(926,590)</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sales of capital assets	<u>-</u>	<u>57,544</u>
Net cash flow from capital and related financing activities	<u>-</u>	<u>57,544</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	2,763,762	-
Purchases of investments	-	(42,294)
Investment income	<u>9,549</u>	<u>44,904</u>
Net cash flow from investing activities	<u>2,773,311</u>	<u>2,610</u>
CHANGE IN CASH	(24,761)	(866,436)
CASH - beginning of year	<u>1,100,070</u>	<u>1,966,506</u>
CASH - end of year	<u>\$ 1,075,309</u>	<u>\$ 1,100,070</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating loss	\$ (1,231,852)	\$ (1,173,202)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	230,439	248,942
Bad debt	2,060,794	-
Gain on sale of capital assets	-	(38,690)
Changes in:		
Accounts receivable	(7,571,924)	(3,276,730)
Prepaid expenses	14,664	(34,465)
Accounts payable	2,384,275	2,495,226
Deferred revenue	827,742	-
Compensated absences	9,691	(67,382)
Other postemployment benefits obligation	560,814	624,769
Retirement incentive	(58,679)	293,395
Due to New York State Retirement System	<u>(24,036)</u>	<u>1,547</u>
Net cash flow from operating activities	<u>\$ (2,798,072)</u>	<u>\$ (926,590)</u>

The accompanying notes are an integral part of these statements.

**HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

1. ORGANIZATION AND REPORTING ENTITY

Hudson River-Black River Regulating District (the Regulating District) was created in 1959 under Article 15, Title 21 of the Environmental Conservation Law, which combined two organizations, the Black River Regulating District (Black River), formed in 1919, and the Hudson River Regulating District (Hudson River), formed in 1922. The Regulating District is a New York State public benefit corporation that is mandated to regulate stream flows, including health and safety, as required by public welfare. The regulation of stream flows into the two watershed areas is the mission of the consolidated organization. The day-to-day operation and financing of the two areas is conducted independently, because they are not physically related or connected in any way. Accordingly, the operating costs of each are recovered from two different sets of statutory beneficiaries, hydropower (or water power) agreements and, in the Hudson River area only, the Great Sacandaga Lake Permit System. Each watershed area has its own operating personnel; however, a common professional staff serves both. Overall direction is supplied by a board appointed by the Governor of New York State.

The Regulating District is a component unit of the State of New York and, as such, is included in the State's general purpose financial statements. The Regulating District's financial statements include all operations for which the Regulating District has financial accountability.

A significant portion of the Regulating District's employees are covered under a collective bargaining agreement with the Civil Service Employees Administration (CSEA) which expired June 30, 2012. At time of issuance of these financial statements, no new agreement has been reached.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Regulating District's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent they do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The Regulating District has elected not to follow subsequent private sector guidance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

GASB requires the classification of net assets into three components, as defined below:

- **Invested in capital assets, net of related debt** - consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2012 and 2011, the Regulating District did not have any debt.
- **Restricted net assets** - consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. As of June 30, 2012 and 2011, the Regulating District did not have any restricted net assets.
- **Unrestricted net assets** - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash

The Regulating District's monies must be deposited in Federal Depository Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. During the years ended June 30, 2012 and 2011, the Regulating District also had funds held by New York State in Short Term Investment Pools (STIP). The Regulating District is not responsible for collateralizing the STIP funds, as they are collateralized at the State level. The Regulating District's cash in FDIC insured commercial banks, at times, may exceed federally insured limits. The Regulating District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

Accounts Receivable

Accounts receivable consists of assessments due from beneficiaries. Accounts receivable are carried on the statements of net assets at net realizable value. The Regulating District has elected to record bad debts using the allowance method. Accounts receivable are recorded net of the allowance for doubtful accounts of \$15,200 and \$12,200 at June 30, 2012 and 2011, respectively.

Investments

The Regulating District's investment policies comply with the New York State Comptroller's guidelines for such policies. In addition, the Regulating District has its own written investment policy. Those policies permit investments in, among other things, obligations of the U.S. Treasury and its agencies and instrumentalities, certificates of deposit and obligations of the State of New York. Investments are recorded at amortized cost, which approximates market value and investment income is recorded in the statement of revenues, expenses and changes in net assets. Investments are in mutual funds with short term maturities of three years or less and are reported as current assets in the statement of net assets.

Capital Assets

Capital assets are recorded at cost. Capital assets are defined as assets with initial, individual costs exceeding a capitalization threshold of \$5,000 and useful life of two years or more. Depreciation is provided using the straight-line method over the following estimated useful lives:

Dam structures	100 years
Buildings and improvements	15 - 40 years
Equipment	5 - 7 years
Vehicles	5 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Employee Benefits

It is the Regulating District's policy to record employee benefits, including accumulated vacation and sick leave, as a liability. Regulating District employees are granted vacation in varying amounts. Upon retirement from the Regulating District, union employees are reimbursed for fifty percent of all accumulated sick days, up to a stated maximum depending on position held, as specified in the collective bargaining agreement.

Other Postemployment Benefits

The Regulating District provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts. In general, the Regulating District provides health care benefits for those retired personnel who are eligible for a pension through the New York State and Local Employees' Retirement System.

Budgets

As required by legislation, the Regulating District operates on a three-year budgeting cycle. Separate budgets are developed for the Hudson River area and Black River area since the cost of their respective operations is borne by a group of designated beneficiaries in each watershed. General administration costs, including Board expenses, are allocated on a proportionate basis to the two areas. The cost of operating the Permit System at the Great Sacandaga Lake is estimated for a three-year period. This involves allocating personnel salaries and benefits, as well as portion of facility and equipment costs to permit system operations.

Assessments

Resolutions are passed by the Regulating District's Board for both the Hudson River area and Black River area annual assessments at the June Board meeting. On July 1st of each year, assessments are billed, and on November 1st, a transmittal letter is sent to each town, city or village informing it of each statutory beneficiary in their respective community who did not pay their assessment. Also on November 1st, a letter is sent to each county where a statutory beneficiary is located requesting it to charge unpaid assessments on the County's property tax levy for the subsequent year.

Operating and Non-Operating Revenues

Operating revenue consists of assessments, water power service, and permit fees. The Regulating District defines non-operating revenue as interest earnings on investment assets and realized/unrealized gains or losses on sales of investments.

Income Tax Status

As a public benefit corporation, the Regulating District is exempt from federal and state income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

3. CASH

Cash held by the Regulating District in deposit accounts consisted of the following at:

	<u>Carrying Value</u>	<u>Bank Balance</u>
June 30, 2012	\$ <u>263,679</u>	\$ <u>272,628</u>
June 30, 2011	\$ <u>261,177</u>	\$ <u>354,313</u>

The Regulating District's cash deposits at June 30, 2012 and 2011 were secured by the FDIC as follows:

	<u>2012</u>	<u>2011</u>
FDIC	\$ <u>272,628</u>	\$ <u>354,563</u>

Deposits held in Short Term Investment Pools (STIP), held by the NYS Comptroller's Office, funds were \$811,380 and \$838,643 at June 30, 2012 and 2011, respectively.

A summary of the carrying value of cash is as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Cash	\$ 263,679	\$ 261,177
STIP funds	811,380	838,643
Petty cash	<u>250</u>	<u>250</u>
	<u>\$ 1,075,309</u>	<u>\$ 1,100,070</u>

4. INVESTMENTS

New York State statutes and guidelines, and the Regulating District's own investment policies, limit the investment of funds to obligations of the U.S. Government and its agencies, certificates of deposit and obligations of the State of New York. At June 30, 2011, investments included \$2,763,762 of government mutual funds with short-term maturities, under a managed investments arrangement with Sentinel Funds. The Regulating District's investments are carried at amortized cost, which approximates market value. At June 30, 2012, the Regulating District had no investments.

5. CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	<u>2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>2012</u>
Hudson River Area:				
Dam structures	\$ 12,104,830	\$ -	\$ -	\$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	224,260	-	-	224,260
Vehicles	<u>589,556</u>	<u>-</u>	<u>-</u>	<u>589,556</u>
Total at cost	<u>14,839,100</u>	<u>-</u>	<u>-</u>	<u>14,839,100</u>
Less: Accumulated depreciation				
Dam structures	(10,166,491)	(121,047)	-	(10,287,538)
Building and improvements	(596,426)	(48,980)	-	(645,406)
Office and other equipment	(154,580)	(7,837)	-	(162,417)
Vehicles	<u>(581,633)</u>	<u>(6,633)</u>	<u>-</u>	<u>(588,266)</u>
Less: Accumulated depreciation	<u>(11,499,130)</u>	<u>(184,497)</u>	<u>-</u>	<u>(11,683,627)</u>
Total Hudson River Area depreciable assets, net	<u>3,339,970</u>	<u>(184,497)</u>	<u>-</u>	<u>3,155,473</u>
Black River Area:				
Dam structures	2,013,195	-	-	2,013,195
Building improvements	406,442	-	-	406,442
Equipment	72,140	-	-	72,140
Vehicles	150,801	-	-	150,801
Office equipment	<u>6,736</u>	<u>-</u>	<u>-</u>	<u>6,736</u>
Total at cost	<u>2,649,314</u>	<u>-</u>	<u>-</u>	<u>2,649,314</u>
Less: Accumulated depreciation:				
Dam structures	(1,840,202)	(20,000)	-	(1,860,202)
Building improvements	(118,598)	(10,746)	-	(129,344)
Equipment	(62,955)	(1,766)	-	(64,721)
Vehicles	<u>(133,703)</u>	<u>(13,430)</u>	<u>-</u>	<u>(147,133)</u>
Less: Accumulated depreciation	<u>(2,155,458)</u>	<u>(45,942)</u>	<u>-</u>	<u>(2,201,400)</u>
Total Black River Area depreciable assets, net	<u>493,856</u>	<u>(45,942)</u>	<u>-</u>	<u>447,914</u>
Total capital assets, net	<u>\$ 3,833,826</u>	<u>\$ (230,439)</u>	<u>\$ -</u>	<u>\$ 3,603,387</u>

5. CAPITAL ASSETS (Continued)

	<u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>2011</u>
Hudson River Area:				
Dam structures	\$ 12,104,830	\$ -	\$ -	\$ 12,104,830
Building and improvements	1,920,454	-	-	1,920,454
Office and other equipment	224,260	-	-	224,260
Vehicles	<u>691,667</u>	<u>-</u>	<u>(102,111)</u>	<u>589,556</u>
Total at cost	<u>14,941,211</u>	<u>-</u>	<u>(102,111)</u>	<u>14,839,100</u>
Less: Accumulated depreciation				
Dam structures	(10,045,443)	(121,048)	-	(10,166,491)
Building and improvements	(547,446)	(48,980)	-	(596,426)
Office and other equipment	(146,120)	(8,460)	-	(154,580)
Vehicles	<u>(640,826)</u>	<u>(24,064)</u>	<u>83,257</u>	<u>(581,633)</u>
Less: Accumulated depreciation	<u>(11,379,835)</u>	<u>(202,552)</u>	<u>83,257</u>	<u>(11,499,130)</u>
Total Hudson River Area depreciable assets, net	<u>3,561,376</u>	<u>(202,552)</u>	<u>(18,854)</u>	<u>3,339,970</u>
Black River Area:				
Dam structures	2,013,195	-	-	2,013,195
Building improvements	406,442	-	-	406,442
Equipment	72,140	-	-	72,140
Vehicles	150,801	-	-	150,801
Office equipment	<u>6,736</u>	<u>-</u>	<u>-</u>	<u>6,736</u>
Total at cost	<u>2,649,314</u>	<u>-</u>	<u>-</u>	<u>2,649,314</u>
Less: Accumulated depreciation:				
Dam structures	(1,820,202)	(20,000)	-	(1,840,202)
Building improvements	(107,852)	(10,746)	-	(118,598)
Equipment	(60,741)	(2,214)	-	(62,955)
Vehicles	<u>(120,273)</u>	<u>(13,430)</u>	<u>-</u>	<u>(133,703)</u>
Less: Accumulated depreciation	<u>(2,109,068)</u>	<u>(46,390)</u>	<u>-</u>	<u>(2,155,458)</u>
Total Black River Area depreciable assets, net	<u>540,246</u>	<u>(46,390)</u>	<u>-</u>	<u>493,856</u>
Total capital assets, net	<u>\$ 4,101,622</u>	<u>\$ (248,942)</u>	<u>\$ (18,854)</u>	<u>\$ 3,833,826</u>

Depreciation expense charged to operations for the years ended June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Hudson River Area	\$ 184,497	\$ 202,552
Black River Area	<u>45,942</u>	<u>46,390</u>
Total depreciation expense	<u>\$ 230,439</u>	<u>\$ 248,942</u>

6. RETIREMENT SYSTEM

Plan Description

The Regulating District participates in the New York State and Local Employees' Retirement System (the System). This is a cost-sharing, multiple-employer retirement plan. The System provides retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security law (NYSRSSL). As set forth in NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy

The System is noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. For the System, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund.

The Regulating District is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

2012	\$	177,442
2011	\$	188,503
2010	\$	142,961

The Regulating District's contributions made to the System were equal to 100% of the contributions required for 2012 and 2011.

On May 14, 2003, Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes in the System:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund prior to April 1st.

On July 30, 2004, Chapter 260 of the Laws of 2004 of the state of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amounts in excess of seven percent of employees' covered salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered salaries.
- For SFY 2006-07, the amount in excess of 10.5% of employees' covered salaries.

6. RETIREMENT SYSTEM (Continued)

Funding Policy (Continued)

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the System. The December 15 payment due date changed to February 1; however, employers were allowed to prepay their payment by December 15. The covered salary period (April 15 - March 31) does not change for the calculation.

7. NET ASSETS

The following is a description of unrestricted net assets designated by the Board:

- **Assessment Stabilization**
\$359,300 and \$676,667 at June 30, 2012 and 2011, respectively, have been designated for the purpose of stabilizing future assessments.
- **Capital Projects**
\$621,253 and \$1,170,000 at June 30, 2012 and 2011, respectively, have been designated for future capital projects.
- **Other**
\$219,447 and \$413,282 at June 30, 2012 and 2011, respectively, have been designated for legal, engineering and tax purposes.

8. CONTINGENCIES

As of June 30, 2012, the Regulating District continues to defend a series of Article 78 challenges brought by one major statutory beneficiary, a utility, seeking assessment abatements in both the Hudson River and Black River areas covering the years 2000-2012. These cases, commenced annually since 2001, could materially affect the financial position of the Regulating District. The litigation remains in the discovery phase. Therefore, with the outcome uncertain, no amounts have been accrued related to this contingency.

During fiscal 2009, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) returned a judgment in favor of a former statutory beneficiary which completely preempts any assessment of costs against hydropower operators under the Regulating District's New York Environmental Conservation Law (ECL). As a result of the D.C. Circuit's decision, the Regulating District is no longer able to assess downstream hydroelectric projects under New York State law for a significant portion of the Regulating District's annual operations and maintenance expenses. The plaintiff then sought a refund of payments made under color of the invalidated state law and on April 2, 2012 secured a judgment against the Regulating District awarding \$516,567 plus interest from January 1, 2003. While the Regulating District has appealed the plaintiff's windfall, seven other hydropower plant owners may also elect to seek refunds of previous assessments. In fact, a second hydropower owner brought suit in June 2012 to recoup \$2,753,817 and \$761,813, respectively, for two facilities it owns. As noted, the Regulating District has appealed the first verdict and will vigorously defend both of the subsequent claims. In addition, as further described below, a Federal Energy Regulatory Commission (FERC) decision could impact the state court's exercise of jurisdiction significantly reducing amounts due to such plaintiffs. Accordingly, no amounts have been accrued as a liability relating to this litigation. Although this series of cases and potential cases remain under appeal, the potential liability to the Regulating District could be \$5,000,000, plus interest if an unfavorable decision is made.

8. CONTINGENCIES (Continued)

In fiscal year 2010, FERC ordered a headwater benefits study following a decision of the U.S. Court of Appeals which eliminated the Regulating District's ability to assess downstream operators of hydroelectric facilities for benefits received from operation of the Great Sacandaga Lake under New York ECL. The Regulating District will be liable for one-half of the costs incurred by FERC in conducting its headwater benefits investigation. Pursuant to FERC's July 31, 2012 Headwater Benefits Determination, the Regulating District's share of these costs is \$154,790.

The Regulating District will not be assessed for those costs until the headwater benefits proceeding is completed; including payment of headwater benefit charges by the fifteen FERC licensed hydropower facilities owned by eight companies in the Hudson River Area downstream of the Regulating District's Conklingville Dam. FERC's Headwaters Benefits Determination requires the Regulating District to reach agreement with each of the eight downstream hydropower operators with respect to when the annual assessment of hydropower benefits will completely offset amounts such operators paid under color of the now invalidated state law referenced above. Until such offsets occur, the Regulating District will not receive any further funding from downstream hydropower operators. To the extent that FERC makes its headwater benefits determination retroactive, the downstream projects may be given credits against their headwater benefits invoices for the difference between the FERC charge and the amount the project owner paid to the Regulating District during the relevant period. Since the headwater benefits charges are only a fraction of each entity's prior annual assessments, it could take many years before each hydro project operator uses up its credits from past over-collections.

As a result of litigation described above, the Regulating District adopted a March 30, 2010 Apportionment through which it assessed five counties immediately downstream of the Conklingville Dam for the revenue it was previously able to obtain from hydropower beneficiaries. Pursuant to a May 10, 2012 Appellate Division Order which invalidated the March 2010 Apportionment to the extent that the Regulating District failed to reduce the total amount apportioned by the amount chargeable to the state, the Regulating District adopted a July 10, 2012 Apportionment of costs which mirrors the March 2010 Apportionment but also levies an amount chargeable to the state. The five counties continue to pursue an appeal of the Appellate Division's validation of the methodology used in the March 2010 Apportionment. However, after losing a Motion for Leave to Appeal at the Appellate Division, the five counties are expected to file a last ditch motion seeking leave to appeal from the New York State Court of Appeals. In addition, the Regulating District's July 10, 2012 adoption of the new Apportionment is subject to an administrative grievance hearing process, and later as a final agency action, is subject to an Article 78 challenge in the NYS Court system. Barring successful court challenge, the assessments due from the five counties total \$16,882,323 representing the Regulating District's unreimbursed costs for fiscal year 2009-2010, 2010-2011, 2011-2012 and 2012-2013.

8. CONTINGENCIES (Continued)

In light of the five counties' non-payment of assessments due, the Regulating District has been unable to pay annual school and properties taxes of approximately \$2.5 million per annum during fiscal year 2011-2012. On August 2, 2012, Fulton County Supreme Court issued a Decision and Judgment requiring payment of \$1,660,130 for taxes due to Fulton County and its school districts and another Decision and Judgment requiring payment of \$119,362 due to Hamilton County and its school districts.

By reducing staff, deferring capital maintenance projects at its Hudson River Area facilities, relying upon revenue derived from operation of the access permit system at Great Sacandaga Lake and revenue from the reservoir operating agreement at Conklingville Dam, and through the expected deferment of school and property taxes due in fiscal 2012-2013, the Regulating District remains a going concern. The ability of the Regulating District to continue as a going concern after June 30, 2013, able to pay taxes imposed by statute, and to fulfill its mission through regular maintenance of its facilities depends upon it receiving revenue from the outstanding assessments due from the five counties in fiscal 2012-2013.

9. HYDROPOWER (WATER USAGE) AGREEMENTS

In the Hudson River area, the Regulating District has a Hydropower Agreement with a hydro electric company effective July 1, 2003 and expiring June 30, 2021, which required an initial annual payment of \$850,000 that increases by 3.0% each year.

In the Black River area, the Regulating District has a Hydropower Agreement with a hydro electric company effective January 1, 1986 and expiring in December 31, 2016, which required an initial annual payment of \$30,000 that increases by 3.0% each year.

Estimated annual required payments to the Regulating District under the terms of these agreements are as follows for the years ending June 30:

2013	\$ 1,172,813
2014	1,207,997
2015	1,244,237
2016	1,281,564
2017	1,248,254
Thereafter	<u>5,378,895</u>
	<u>\$ 11,533,760</u>

10. CONCENTRATIONS

Approximately 70% and 96% of assessment revenues and 56% and 74% of total operating revenues were provided by five and two statutory beneficiaries for the years ended June 30, 2012 and 2011, respectively.

11. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The Regulating District provides certain health care benefits for retired employees. The Regulating District administers the Retirement Benefits Plan (the Retirement Plan) as a single-employer defined benefit Other Postemployment Benefit Plan (OPEB).

In general, the Regulating District provides health care benefits for those retired personnel who are eligible for a pension through the System. The Retirement Plan can be amended by action of the District subject to applicable collective bargaining and employment agreements. There were 37 retired employees currently receiving benefits at June 30, 2012 and 2011. The Retirement Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

Funding Policy

The obligations of the Retirement Plan are established by action of the Regulating District pursuant to applicable collective bargaining and employment agreements. The required premium contribution rates of retirees range from 0%-25%, depending on when the employee was hired and if the employee is governed by a CSEA or a management exempt plan. The Regulating District will pay 100% of the premiums for the retiree and spouse for a management exempt employee, 100% of the premium for a Union employee, and 75% of the premium for a Union employees' spouse. The Regulating District pays the costs of administering the Retirement Plan. The Regulating District currently contributes enough money to the Retirement Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums. The amounts paid during 2012 and 2011 were approximately \$392,000 and \$328,000, respectively, and were recorded as operating expenses.

Annual OPEB Cost and Net OPEB Obligation

The Regulating District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years. The following table shows the components of the Regulating Districts' annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the Regulating Districts' net OPEB obligation:

	<u>2012</u>	<u>2011</u>
Annual required contribution (ARC)	\$ 1,011,953	\$ 1,011,953
Interest on net OPEB obligation	83,938	83,938
Adjustment to ARC	<u>(142,749)</u>	<u>(142,749)</u>
Annual OPEB cost	953,142	953,142
Contributions made	<u>(392,328)</u>	<u>(328,373)</u>
Increase in net OPEB obligation	560,814	624,769
Net OPEB obligation - beginning of year	<u>4,826,688</u>	<u>4,201,919</u>
Net OPEB obligation - end of year	<u>\$ 5,387,502</u>	<u>\$ 4,826,688</u>

11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Trend Information

The following table provides trend information for the Retirement Plan:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percent Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 953,142	\$ 392,328	41.2%	\$ 5,387,502
6/30/2011	\$ 953,142	\$ 328,373	34.5%	\$ 4,826,688
6/30/2010	\$ 1,737,145	\$ 317,999	18.3%	\$ 4,201,919

Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Retirement Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Retirement Plan is currently not funded.

Schedule of Funding Progress for the Regulating District's Plan

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Actuarial Valuation Date</u>	<u>Year Ended</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a% of Covered Payroll (b-a)/(c)</u>
7/1/2010	2012	\$ -	\$ 11,418,496	\$ 11,418,496	0.0%	\$ 1,174,449	972%
7/1/2010	2011	\$ -	\$ 11,418,496	\$ 11,418,496	0.0%	\$ 1,502,610	760%
7/1/2010	2010	\$ -	\$ 11,036,544	\$ 11,036,544	0.0%	\$ 1,677,981	658%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The Regulating District has elected to use the alternate valuation method, as there are fewer than 100 plan members.

11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

In the July 1, 2010 valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	3.0%
Medical care cost trend rate	8.25% or 10.0% initially, based on age of retirees. The rate is reduced by decrements to an ultimate rate of 5.0% in 2017.
Prescription drug trend rate	9.0% initially. The rate is reduced by decrements to an ultimate rate of 5.0% in 2017.
Dental trend rate	5.0%
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level Dollar
Amortization basis	Open

* As the plan is unfunded, the assumed discount rate considers that the Regulating District's investment assets are low risk in nature, such as money market or Sentinel fund.

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws are expected to have a financial impact on employers who sponsor postretirement health care benefit plans and therefore may affect the valuation of the plan. As of the date of this statement, the Regulating District could not reasonably conclude which provisions would impact the financial accounting of the Plan. Upon release of further regulatory guidance, the impact of PPACA and HCERA will be appropriately reflected in the valuation.

12. LONG-TERM OBLIGATIONS

Long-term obligation activity for the year ended June 30, 2012 is summarized below.

	Balance 06/30/2011	Additions	Deletions	Balance 06/30/2012	Classified as	
					Current	Non-Current
Other postemployment benefits	\$ 4,826,688	\$ 953,142	\$(392,328)	\$ 5,387,502	\$ -	\$ 5,387,502
Due to NYS retirement system	75,302	-	(24,036)	51,266	36,771	14,495
Retirement incentive	293,395	-	(58,679)	234,716	58,679	176,037
Compensated absences	<u>266,884</u>	<u>9,691</u>	<u>-</u>	<u>276,575</u>	<u>69,144</u>	<u>207,431</u>
	<u>\$ 5,462,269</u>	<u>\$ 962,833</u>	<u>\$(475,043)</u>	<u>\$ 5,950,059</u>	<u>\$ 164,594</u>	<u>\$ 5,785,465</u>

Additions and deletions to compensated absences are shown net since it is impracticable to determine these amounts separately.

12. LONG-TERM OBLIGATIONS (Continued)

Long-term activity for the year ended June 30, 2011 is summarized below.

<u>Business-type activities</u>	Balance			Classified as		
	<u>06/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/2011</u>	<u>Current</u>	<u>Non-Current</u>
Other postemployment benefits	\$ 4,201,919	\$ 953,142	\$ (328,373)	\$ 4,826,688	\$ -	\$ 4,826,688
Due to NYS retirement system	73,755	1,547	-	75,302	40,004	35,298
Retirement incentive	-	293,395	-	293,395	58,679	234,716
Compensated absences	<u>334,266</u>	<u>-</u>	<u>(67,382)</u>	<u>266,884</u>	<u>66,721</u>	<u>200,163</u>
	<u>\$ 4,609,940</u>	<u>\$ 1,248,084</u>	<u>\$ (395,755)</u>	<u>\$ 5,462,269</u>	<u>\$ 165,404</u>	<u>\$ 5,296,865</u>

Additions and deletions to compensated absences are shown net since it is impracticable to determine these amounts separately.

13. COMMITMENTS

The Regulating District has two operating lease agreements for office space. One lease agreement requires monthly payments of \$1,332 through March 2015; and the second lease agreement requires monthly payments of \$3,500 through March 2013. There was a third operating lease agreement which was terminated in April of the current year. Monthly payments of \$1,190 were paid for 10 months relating to that agreement.

The future minimum lease payments for fiscal years ending June 30 under the terms of these lease agreements are as follows:

2013	\$ 43,980
2014	15,980
2015	<u>11,980</u>
	<u>\$ 71,940</u>

Total rent expense recognized by the Regulating District under the terms of all of its office lease agreements was approximately \$54,000 and \$57,000 during the years ended June 30, 2012 and 2011, respectively.

14. TERMINATION BENEFITS

During the 2010 fiscal year, the Regulating District approved a one-time early retirement incentive plan, known as the 2010-2011 Retirement Incentive Program (the Program), for all employees. This Program was initiated by the New York State Division of the Budget. To be eligible, employees were required to have 10 years of service with the Regulating District and be at least 50 years of age. An employee also must have been in active service from February 1, 2010 until the commencement of the open period on July 14, 2010. Eligible employees had to retire by September 11, 2010.

Employees who took advantage of this incentive received approximately one month of additional service credit for each year of service, up to a maximum of three additional years of service credit. At June 30, 2012 and 2011, the Regulating District had a liability related to the termination benefits of approximately \$235,000 and \$293,000, respectively.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)

COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Hudson River</u>	<u>Black River</u>	<u>Total Regulating District</u>
ASSETS			
CURRENT ASSETS:			
Cash	\$ 846,430	\$ 228,879	\$ 1,075,309
Accounts receivable, net	13,900,797	80,820	13,981,617
Due from (to) District	(2,905,967)	2,905,967	-
Prepaid expenses	<u>508,711</u>	<u>12,283</u>	<u>520,994</u>
Total current assets	12,349,971	3,227,949	15,577,920
CAPITAL ASSETS, net	<u>3,155,473</u>	<u>447,914</u>	<u>3,603,387</u>
Total assets	<u>15,505,444</u>	<u>3,675,863</u>	<u>19,181,307</u>
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	7,503,591	2,839	7,506,430
Deferred revenue	827,742	-	827,742
Current portion of compensated absences	39,475	29,669	69,144
Current portion of retirement incentive	53,655	5,024	58,679
Current portion due to New York State Retirement System	<u>36,771</u>	<u>-</u>	<u>36,771</u>
Total current liabilities	8,461,234	37,532	8,498,766
COMPENSATED ABSENCES, net of current portion	118,426	89,005	207,431
OTHER POSTEMPLOYMENT BENEFITS	4,032,383	1,355,119	5,387,502
RETIREMENT INCENTIVE, net of current portion	160,965	15,072	176,037
DUE TO NEW YORK STATE RETIREMENT SYSTEM, net of current portion	<u>14,495</u>	<u>-</u>	<u>14,495</u>
Total liabilities	<u>12,787,503</u>	<u>1,496,728</u>	<u>14,284,231</u>
NET ASSETS			
INVESTED IN CAPITAL ASSETS UNRESTRICTED	<u>3,155,473</u> <u>(437,532)</u>	<u>447,914</u> <u>1,731,221</u>	<u>3,603,387</u> <u>1,293,689</u>
Total net assets	<u>\$ 2,717,941</u>	<u>\$ 2,179,135</u>	<u>\$ 4,897,076</u>

The accompanying notes are an integral part of these schedules.

HUDSON RIVER-BLACK RIVER REGULATING DISTRICT
(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF NEW YORK)

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Hudson River</u>	<u>Black River</u>	<u>Total Regulating District</u>
OPERATING REVENUE:			
Assessments	\$ 5,403,458	\$ 816,047	\$ 6,219,505
Water power service	1,083,480	61,899	1,145,379
Permit fees	411,794	-	411,794
Other	4,554	-	4,554
	<u>6,903,286</u>	<u>877,946</u>	<u>7,781,232</u>
OPERATING EXPENSES:			
Personnel services and employee benefits	1,954,035	674,156	2,628,191
Real estate taxes	2,515,082	35,935	2,551,017
Bad debt	2,057,776	3,018	2,060,794
New York State service fees	787,236	-	787,236
Contractual services	468,608	159,122	627,730
Depreciation	184,497	45,942	230,439
Material and supplies	85,464	42,201	127,665
Repairs and maintenance	-	12	12
Allocated general board expenses	(403,086)	403,086	-
	<u>7,649,612</u>	<u>1,363,472</u>	<u>9,013,084</u>
Total operating expenses	<u>7,649,612</u>	<u>1,363,472</u>	<u>9,013,084</u>
Total operating loss	<u>(746,326)</u>	<u>(485,526)</u>	<u>(1,231,852)</u>
NON-OPERATING REVENUE:			
Investment income, net	<u>296</u>	<u>9,253</u>	<u>9,549</u>
Total non-operating revenue	<u>296</u>	<u>9,253</u>	<u>9,549</u>
CHANGE IN NET ASSETS	(746,030)	(476,273)	(1,222,303)
NET ASSETS - beginning of year	<u>3,463,971</u>	<u>2,655,408</u>	<u>6,119,379</u>
NET ASSETS - end of year	<u>\$ 2,717,941</u>	<u>\$ 2,179,135</u>	<u>\$ 4,897,076</u>

The accompanying notes are an integral part of these schedules.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 21, 2012

To the Board of Directors of
Hudson River-Black River Regulating District:

We have audited the financial statements of the business-type activities of the Hudson River-Black River Regulating District (the Regulating District) a New York State Public Benefit Corporation, which is a discretely presented component unit of the State of New York, as of and for the year ended June 30, 2012, which collectively comprise the Regulating District's basic financial statements and have issued our report thereon dated September 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Regulating District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Regulating District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regulating District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regulating District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regulating District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.